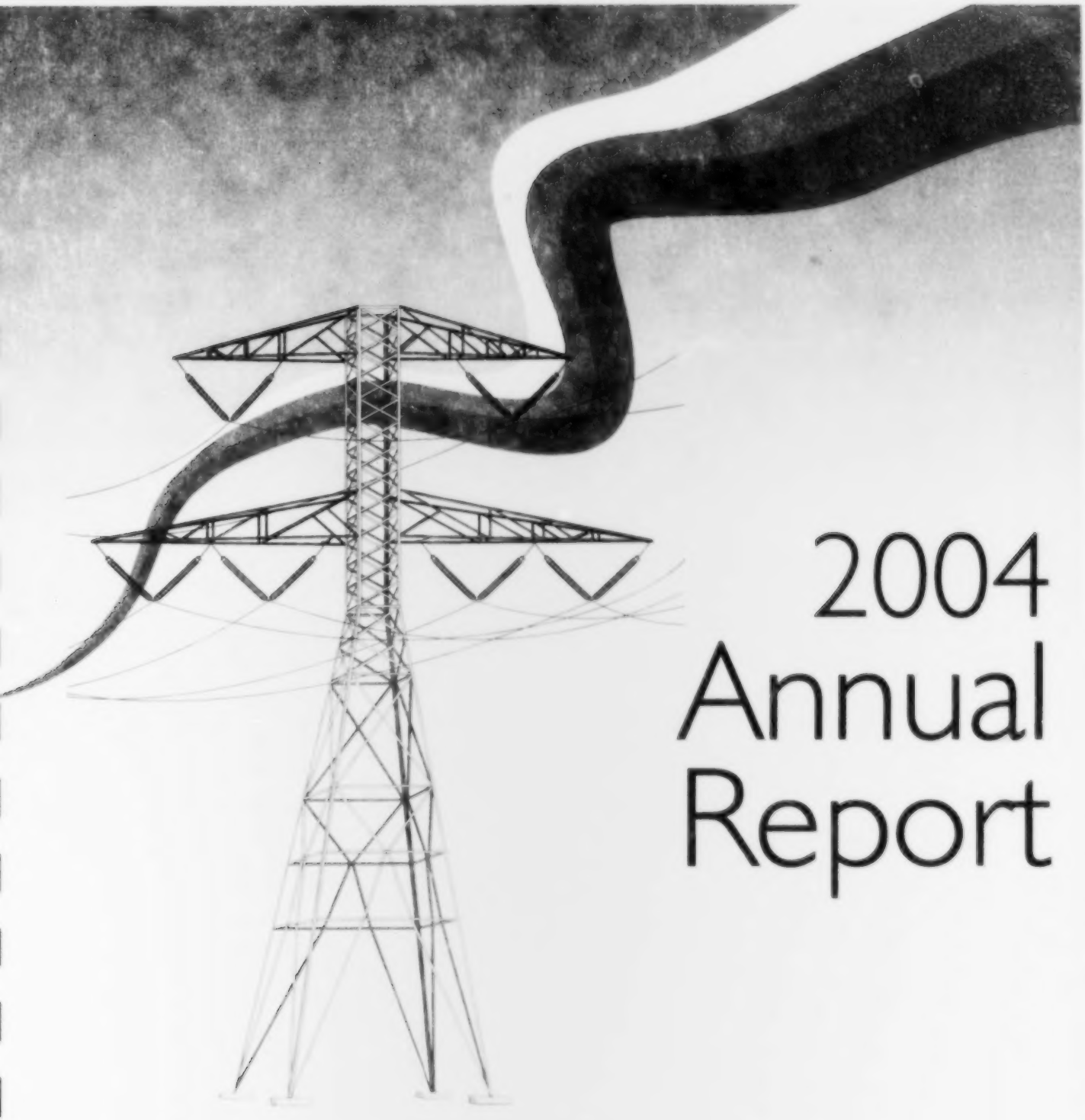

2004 Annual Report

Northwest Territories

Public Utilities Board
of the
Northwest Territories

105-03199/

PUBLIC UTILITIES BOARD

OF THE NORTHWEST TERRITORIES

ANNUAL REPORT

For the year ending
December 31, 2004

TABLE OF CONTENTS

MINISTER'S LETTER i

CHAIRPERSON'S LETTER ii

THE PUBLIC UTILITIES BOARD 1

REGULATORY JURISDICTION 2

UTILITY REGULATION 3

2004 HIGHLIGHTS 4

A LOOK AHEAD 4

SUMMARY OF 2004 BOARD DECISIONS 5

Northwest Territories Minister Responsible for the Public Utilities Board

FEB 2 1 2005

THE HONOURABLE GLENNA HANSEN
COMMISSIONER OF THE NORTHWEST TERRITORIES

I take pleasure in submitting the Annual Report of the Northwest Territories Public Utilities Board for the calendar year ending December 31, 2004.

Floyd K. Roland
Minister

Enclosure

Government of the Northwest Territories, P.O. Box 1320, Yellowknife, NT Canada X1A 2L9 Fax: (867) 873-0274

Northwest Territories Public Utilities Board

February 22, 2005

The Honourable Floyd Roland
Minister Responsible for the
Public Utilities Board
of the Northwest Territories

Dear Minister:

I am pleased to submit the Annual Report of the Northwest Territories Public Utilities Board for the calendar year ending December 31, 2004, in accordance with the provisions of Section 16. (1) of the *Public Utilities Act*.

Yours truly,

John E. Hill
Chairperson

203 - 62 Woodland Drive, Box 4211, Hay River, NT X0E 1G1
Telephone (867) 874-3944 Fax (867) 874-3639

THE PUBLIC UTILITIES BOARD

Mandate

The Northwest Territories Public Utilities Board ("**Board**") is an independent regulatory agency of the Territorial Government operating under and administering the *Public Utilities Act* ("***the Act***"). The Board is primarily responsible for the regulation of energy utilities in the Northwest Territories ("**NWT**"), to ensure that the rates charged for energy are fair, just and reasonable. It is also responsible for ensuring utility operators provide safe, adequate and secure services to their customers.

Board Organization

The Board consists of a part-time Chairperson and four part-time members. The Board Secretary, who reports to the part-time Chairperson, administers the office. As the chief executive officer, the Chairperson presides over sittings of the Board and supervises the Board Secretary.

The position of Chairperson has been part-time since April 1, 2001.

The Board operates efficiently with a part-time Chairperson, a full-time Board Secretary and outside counsel and consultant. Because of the technical nature of the work, the Board is dependent on specialized outside assistance. No changes are contemplated, as the arrangement is cost-effective.

The Minister Responsible for the Board, upon the recommendation of the Executive Council appoints members to the Board. At present, the Board consists of the following persons:

Chairperson	John E. Hill, Devon, Alberta
Vice-Chairperson	Gene Nikiforuk, Inuvik, Northwest Territories
Member	Gabrielle Decorby, Yellowknife, Northwest Territories
Member	Joe Acorn, Yellowknife, Northwest Territories
Member	Norman Gauthier, Fort Smith, Northwest Territories

The Board is assisted by:

Board Secretary	Louise Larocque, Hay River, Northwest Territories
Legal Counsel	John Donihee Professional Corporation, Calgary, Alberta
Consultant	Raj Retnanandan, Energy Management & Regulatory Consulting Ltd., Edmonton, Alberta

REGULATORY JURISDICTION

Following are the utilities subject to the Board's jurisdiction:

Northwest Territories Power Corporation
Head Office: Hay River, Northwest Territories

Stittco Utilities NWT Ltd.
Head Office: Hay River, Northwest Territories

Northland Utilities (NWT) Limited
Head Office: Hay River, Northwest Territories

Northland Utilities (Yellowknife) Limited
Head Office: Yellowknife, Northwest Territories

The Town of Norman Wells
Head Office: Norman Wells, Northwest Territories

Aadrii Ltd.
Head Office: Yellowknife, Northwest Territories

Inuvik Gas Ltd.
Head Office: Inuvik, Northwest Territories

UTILITY REGULATION

The need for regulation arises because utilities generally provide service on a monopoly basis without the economic controls of competition. The Board is the proxy for competition and attempts to ensure efficiency and fair pricing. The principles of rate regulation rest on fairness to both the utility and the consumer.

Energy utilities, as defined in *the Act*, are subject to Board regulation. The Board's principal responsibility is to ensure that each utility provides safe, adequate service at rates, which are just and reasonable. When setting rates the Board must balance the competing interests of consumers, and the utilities. Rates are set through a public hearing process. The Board's objective through the hearing process is to guarantee that the public interest is served, and protected.

Public involvement is an essential component of the regulatory process. The Board ensures the opportunity for public participation by directing the applicant to publish a notice, approved by the Board, advising that a hearing is to be held to consider the application. The notice may be published in newspapers throughout the utility's service area, sent to each customer in monthly billings, or distributed to the public in a manner that the Board considers appropriate.

The Board has the authority to award costs at the conclusion of a hearing. Intervenors before the Board may receive up to 100% of their reasonably incurred costs provided that, in the Board's opinion, the intervention contributed in a meaningful way to the Board's understanding of the application.

Intervenors are interested parties who register with the Board and receive copies of the application and all written questions and answers.

Intervenors may take an active role in the hearing process. They may submit written questions, give evidence, call expert witnesses, and cross-examine the applicant. The applicant as well as other intervenors is provided the opportunity to cross-examine the intervenor and the intervenor's expert witnesses. Alternatively, the intervenor may choose to not actively participate in the hearing, but simply receive all available information.

After hearing and reviewing the evidence, the Board issues its decision outlining the Board's determination of the application. The Board may turn down the rate change, modify it, or approve the entire request.

The Board also approves major capital projects, the issuance of long-term debt and franchise agreements.

2004 HIGHLIGHTS

The Board's major activity during 2004 was the Northwest Territories Power Corporation's ("**NWTPC**") Capacity/Reliability Planning Criteria proceedings. A public hearing was held in Yellowknife.

The Board also dealt with other significant matters that are detailed in the decision summary.

During the year, Board members participated in the educational conference hosted by the Canadian Association of Members of Public Utilities Tribunals ("**CAMPUT**"). CAMPUT is the Board's primary resource for providing staff and Board members with training and education in areas of utility regulation.

The Board's Website was published on December 2004. The website address is www.nwtpublicutilitiesboard.ca.

A LOOK AHEAD

Northland Utilities (Yellowknife) Limited ("**Northland Yk**") filed its General Rate Application for the years 2005 and 2006 on December 31, 2004. The Board has established a hearing schedule to deal with the Application.

Northland Utilities (NWT) Limited ("**Northland NWT**") is expected to file a General Rate Application the first quarter of 2005.

Note: The Board regrets that Board member Mr. Norman Gauthier passed away on January 2, 2005.

SUMMARY OF 2004 BOARD DECISIONS

DECISION 1-2004 **January 20, 2004**

Application:
By letter dated January 8, 2004, NWTPC requested that the collection period for its 2002/03 General Rate Application shortfall be extended from 5 months to 12 months for the community of Rae Lakes. The community supported this request.

Order:
After reviewing the rate schedule provided by NWTPC, the Board approved the amended rate schedule effective February 1, 2004.

DECISION 2-2004 **February 17, 2004**

Application:
By letter dated January 16, 2004, Northland NWT applied to the Board for approval to decrease the Rider F for its Hay River customers to reflect the removal of the purchased power shortfall recovery rider by NWTPC and to adjust Rider A for the communities served by the company effective February 1, 2004. Due to the timing of the applications and implementation, Northland NWT, by letter dated February 12, 2004, filed revised applications with respect to Rider F and Rider A, changing the effective date to March 1, 2004.

Order:
After reviewing the revised applications, the Board approved the rate riders.

DECISION 3-2004 **February 17, 2004**

Application:
By letter dated January 16, 2004, Northland Yk filed an application to decrease Rider C for its Yellowknife customers to reflect the removal of a purchase power shortfall recovery rider by NWTPC, effective February 1, 2004. Northland Yk filed a revised application by letter dated February 12, 2004 to reflect a change in the implementation date to March 1, 2004.

Order:
After reviewing the revised application, the Board approved the rate rider.

DECISION 4-2004 **March 4, 2004**

Application:
By letter dated February 5, 2004, Northland NWT applied to the Board for approval to issue a long-term instrument in the amount of $1,300,000, by way of an unsecured debenture with an interest rate of 5.47% to ATCO Electric Ltd.

Order:
After reviewing the application, the Board approved the issuance of a Debenture in the principal amount of $1,300,000 to ATCO Electric Ltd at an interest rate of 5.47%.

DECISION 5-2004 **March 4, 2004**

Application:
By letter dated February 5, 2004, Northland Yk applied to the Board for approval to issue a long-term instrument in the amount of $1,000,000, by way of an unsecured debenture with an interest rate of 5.47% to ATCO Electric Ltd.

Order:
After reviewing the application, the Board approved the issuance of a Debenture in the principal amount of $1,000,000 to ATCO Electric Ltd at an interest rate of 5.47%.

DECISION 6-2004 **March 8, 2004**

Application:
NWTPC, by letter dated February 20, 2004 submitted an application for approval of a project permit pursuant to section 54 of *the Act* for a major capital project to replace the generating plant at Fort McPherson that was completely destroyed by fire on January 19, 2004. A copy of the application was provided to the Hamlet of Fort McPherson.

After giving consideration to the public need for the project and the reliability of the utility, the Board approved NWTPC's application for a project permit to undertake the replacement of the generating plant, subject to the condition that NWTPC provides all relevant information respecting the project that would have been provided in the normal course for project applications, including a capital budget, the rate impact, sources of financing, insurance recoveries and any other relevant information as soon as such information can be reasonably assembled and in any event no later than completion of the design stage of the new plant. NWTPC was directed to provide the foregoing information prior to commencement of construction of the project. The Board indicated that it might impose further conditions following submission and review of the information.

Order:
The Board approved the application for a project permit to undertake the replacement of the generating plant, subject to the above conditions.

DECISION 7-2004 **March 30, 2004**

Application:
NWTPC, by letter dated February 25, 2004, filed an application for an order approving a rate rider applicable to the communities of Fort Resolution and Fort Smith, due to extended shutdowns of the Taltson Hydro system resulting in an incremental diesel fuel expense not included in Fort Resolution's and Fort Smith's revenue requirements.

Given the pass through of the proposed fuel cost under recovery was not contemplated at the last General Rate Application and given the relative immateriality of the amount in relation to NWTPC's overall costs and revenues, the Board was not persuaded that the fuel cost under recovery should be treated as an extraordinary item. Further the Board was not persuaded that the under recovery resulted from an uncontrollable event.

Order:
NWTPC's application for approval of the recovery of additional fuel costs occasioned as a result of an extended shut down at the Taltson Hydro plant was denied.

DECISION 8-2004 **March 30, 2004**

Application:
NWTPC, by letter dated January 9, 2004, submitted an application for approval of a project permit pursuant to section 54 of *the Act* for a major capital project to upgrade the Snare Rapids Hydro Plant, at a cost expected to exceed $5 million. A copy of the application was provided to the City of Yellowknife ("**the City**").

The Board provided NWTPC and interested parties with a schedule to establish a written process.

The Board and the City provided NWTPC with information requests, to which they responded by letter, dated February 9, 2004. NWTPC amended the cost of the project to $5,078,799.

Order:
After giving consideration to the public need for the project and the reliability of the utility, the Board approved NWTPC's application for a project permit to upgrade the Snare Rapids Hydro Plant, in accordance with the application.

DECISION 9-2004 **June 25, 2004**

Application:
In accordance with Board Decision 1-2002, NWTPC, by letter dated April 21, 2004, applied for resolution of the Snare-Yellowknife Zone Capacity Planning Criteria and the capacity planning criteria for Rae-Edzo, Inuvik, Fort Smith, Norman Wells and Fort Resolution. NWTPC also re-submitted the capacity planning criteria for isolated diesel systems in order to have the full slate of planning criteria approved as a package.

During the written process, the City requested the NWTPC provide an electronic copy of the Snare-Yellowknife System Reliability Evaluation Program ("**SYSREP**") Model. NWTPC had refused to do so on the basis that the model is proprietary information.

NWTPC advised that it was prepared to produce the SYSREP model pursuant to a Board Order and subject to an undertaking to maintain confidentiality.

Order:
After reviewing the letters from NWTPC and the City and the responses to the information request, the Board ordered the release of the model under the conditions specified by NWTPC, on an as needed basis for purposes of the proceeding to an individual or individuals representing registered intervenors or the Board, who have requested and executed a confidentiality agreement with NWTPC.

DECISION 10-2004 **August 16, 2004**

Application:
By letter dated July 28, 2004, Northland NWT filed an application to increase the existing Rider A.

Order:
The Board reviewed the schedules and information provided by Northland NWT and approved the rate rider, effective September 1, 2004.

DECISION 11-2004 **October 19, 2004**

Application:
Northland NWT applied for approval of a proposed Franchise Agreement for the supply and distribution of electrical power to users within the Town of Hay River.

Order:
The Board approved the Electric Franchise Agreement.

DECISION 12-2004 **November 12, 2004**

Application:
Northland Yk by letter dated September 29, 2004, submitted an application for approval of a project permit pursuant to section 54 of *the Act* for a major capital project respecting the conversion of the Yellowknife distribution system to 25 kV. A copy of the application was provided to the City and NWTPC. The project is estimated to cost $17.6 million, in 2004 dollars, to be completed over an eight-year period beginning in 2005.

The Board by letter provided Northland Yk and interested parties with a schedule to establish a written hearing process.

In accordance with the schedule the City and the Board provided Northland Yk with written information requests, to which Northland Yk responded.

Counsel for the City, in a letter dated November 2, 2004, advised that it would make no further submissions, and suggested that the Board close the record and move to its deliberations leading to a decision.

Order:
After giving consideration to the public need for the project and the reliability of the utility, the Board approved Northland Yk's application for a project permit respecting the conversion of the Yellowknife distribution system to 25 kV, in accordance with the application.

DECISION 13-2004 **November 18, 2004**

Application:
By letter dated November 5, 2004, Northland NWT filed an application to increase the existing Rider A for the communities for Fort Providence, Dory Point/Kakisa, Wekweti and Trout Lake.

Order:
The Board reviewed the schedules and information provided by Northland NWT and approved the rate rider, effective December 1, 2004.

DECISION 14-2004 **November 29, 2004**

Application:
In accordance with Board Decision 1-2002, NWTPC, by letter dated April 21, 2004, applied for resolution of the Snare-Yellowknife Zone Capacity Planning Criteria and the capacity planning criteria for Rae-Edzo, Inuvik, Fort Smith, Norman Wells and Fort Resolution. NWTPC also re-submitted the capacity planning criteria for isolated diesel systems in order to have the full slate of planning criteria approved as a package.

A public hearing was held in the City of Yellowknife on September 1st and 2nd, 2004.

Order:
1. The Board approved the NWTPC's firm capacity planning criteria as follows:

   a) Isolated Diesel Systems
   110% of the forecast peak load met with the largest single unit out of service, subject to engineering judgment.

   b) Dual Generation Source Communities of Fort Smith, Fort Resolution and Norman Wells
   105% of the forecast peak load met with the primary supply out of service, subject to engineering judgment, where the primary supply for each of the dual fuel communities is as follows:
      - Fort Smith and Fort Resolution: Taltson Hydro supply;
      - Norman Wells: purchased power from Imperial Oil Resources N.W.T. Limited;

   c) Snare-Yellowknife Zone
      - A long-term target loss of load expectation ("LOLE") of 2 hours per year using the Snare-Yellowknife System Reliability Evaluation Program ("SYSREP") generation and

transformation/transmission approach at the Yellowknife load point, subject to engineering judgment.

- Yellowknife load point minimum diesel: 105% of the Yellowknife load point forecast, without Con and Giant mine load, met with the primary supply out of service, where the primary supply is the Snare Hydro (i.e. only Jackfish and Bluefish units in service), subject to engineering judgment.
- Rae-Edzo load point minimum diesel: 105% of the Rae-Edzo load point forecast met with the primary supply out of service, where the primary supply is the Snare Hydro (i.e. only Frank's Channel units in service), subject to engineering judgment.

2. The Board approved the use of transmission forced outage rates based on 50:50 weighting of the L199 transmission system historical outage data and Canadian Electrical Association's Equipment Reliability Information System data for the L 199 transmission system for purposes of the probabilistic LOLE modeling of the Snare-Yellowknife system, for system planning purposes.

3. The Board approved the use of average winter water flow and reservoir levels for purposes of determining the hydro capacity to be included in the LOLE model.

4. The Board accepted NWTPC's proposal that the maximum continuous rating of diesel units be used for modeling of the system for capacity planning purposes.

DECISION 15-2004 **November 30, 2004**

Application:
By letter dated November 8, 2004, NWTPC applied to the Board for approval for a private placement of debentures, in an amount of $25 million. NWTPC advised the purpose of the debenture was to borrow $13.5 million to discharge NWTPC's financial obligations under the Bluefish Hydro purchase agreement and to convert $11.5 million short-term debt to long-term debt.

Order:
The Board noted that the objective of NWTPC's financing policy is to maximize financing flexibility, minimize refinancing risk and achieve a reasonable match between term of debt financing and the age of underlying assets. After reviewing the application and the responses to information requests provided in support thereof, the Board approved the issuance of the Debenture in the principal amount of $25,000,000 at a rate not to exceed a spread over the benchmark long Canada bonds of 110 basis points.

DECISION 16-2004 **December 9, 2004**

Application:
By letter dated December 1, 2004, Northland NWT filed an application to increase the existing Rider I for the Town of Hay River.

Order:
The Board reviewed the schedules and information provided by Northland NWT and approved the rate rider, effective January 1, 2005.